

Review: 4228
Statewide Single Audit
Year Ended June 30, 2004
Illinois Student Assistance Commission

04-07. The auditors recommend ISAC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISAC should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)

Findings: ISAC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the ISAC information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by ISAC.

In discussing this with ISAC officials, they stated that the increasing complexity of the student loan programs coupled with the number of parties involved in the financial reporting process makes it difficult to finalize the financial information within the required timeframe.

Response: ISAC is committed to working with the Illinois Office of the Comptroller and the Illinois Office of the Auditor General to ensure timely completion of the SCO reporting requirements. To address this concern the agency is continuing to review our internal processes for reporting federal expenditures and will consult with the Illinois Office of the Comptroller on reporting process improvements.

4-53. The auditors recommend ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of reinsurance claims to the USDE and make necessary changes to conform with those requirements. (Repeated-2003)

Findings: ISAC did not comply with the regulations regarding the submission and processing of reinsurance claims.

During fiscal year 2003, the U.S. Department of Education Office of the Inspector General (ED-OIG) conducted an audit of the Federal Family Education Loan program to determine if, for the period October 1, 2002 through June 30, 2003, ISAC (1) adequately processed post-default collections related to administrative wage garnishments, and (2) properly submitted eligible reinsurance claims to USDE for defaulted student loans (default claims).

REVIEW: 4228

The final audit report received from ED-OIG indicated ISAC did not comply with the regulations regarding the submission of eligible reinsurance claims.

The report stated ED-OIG reviewed 50 reinsurance claims, totaling \$123,521, selected from a universe of 21,732 reinsurance claims submitted during the audit period. Of the 50 claims tested, the report indicated 32 claims, totaling \$75,077, should have been returned to the lenders because the claim packet was missing accurate collection and/or payment histories or contained evidence of a due diligence violation(s). In addition, the draft report stated ISAC's claims review process is not adequate because the lender does not provide adequate assurance that only claims submitted by lenders exercising required due diligence in servicing the loan were paid.

According to federal regulations, lenders and ISAC, as the guaranty agency, must perform several duties related either to the loan or the lending agency before a claim may be made for payment from the Federal Fund and a reinsurance payment on a loan is received.

The ED-OIG audit report states that ISAC's process is not sufficient to fulfill their administrative responsibility, so the ED-OIG audit report recommends that ISAC require its claims analysts to verify lender due diligence activities shown on the claim form's summary of lender due diligence against all detailed collection history information, support for periods of deferments/forbearances, and dates and amount of borrow payments.

During the year ended June 30, 2004, ISAC has not changed its process for submission and payment of claims.

In discussing these conditions with ISAC officials, they state that the conditions identified surround a well-documented disagreement between ISAC and other guarantors across the country, and the Department of Education concerning interpretations of federal guidance and, in particular, the legitimacy of the Common Claim Initiative, which has been in place for numerous years. ISAC believes their current procedures conform with industry practice and federal regulations as interpreted in the Common Manual.

Response: ISAC has appealed the finding identified by the Department of Education, Office of the Inspector General. In addition, the agency is also actively engaged in meetings and discussions within the guaranty agency community concerning the interpretation of regulations related to the processing and submission of reinsurance claims. ISAC strongly believes that current industry practice for the processing and submission of reinsurance claims as outlined in the Common Manual clearly fulfill the regulations in question. ISAC will, however, modify our claims process, if necessary, based on any agreed upon interpretations of regulations and final guidance concerning this issue which result from discussions with the Department of Education.

Updated Response: ISAC appealed the finding identified by the Department of Education, Office of the Inspector General. On November 23, 2005, the agency received notification from the Department of Education that the appeal had been denied. ISAC has the right to appeal this decision to the Department of Education's Federal Student Aid

REVIEW: 4228

Chief Operating Officer and fully intends to do so. In addition, on October 4, 2005, the National Council of Higher Education Loan Programs (NCHELP) received a letter from the Department of Education indicating that the Department reviewed the Common Claim Initiative (CCI) and found modifications were necessary. The letter further stated that in the Department's view, the current CCI process was not in compliance with federal regulations. The Department of Education indicated that the modifications needed to be implemented within six months of receipt of the letter. On November 3, 2005, NCHELP responded to the Department of Education on behalf of the guaranty agency industry (36 guarantors, of which ISAC is one). NCHELP outlined concerns with the guidance issued from the Department on October 4, 2005, reiterated that the CCI process was shared with the Department as early as 1988 and that at no time since then, until recently, has the process been questioned by the Department. NCHELP further requested a meeting with the Department to discuss issues related to the guidance. ISAC has not received any additional information to date concerning a scheduled meeting on this issue.

ISAC and the rest of the industry strongly continues to believe that current industry practice for the processing and submission of reinsurance claims as outlined in the Common Manual clearly fulfill the regulations in question. ISAC, is however, in the process of modifying our claims process to be effective April, 2006, should negotiations with the Department of Education fail to result in the Department overturning the guidance issued on October 4, 2005.

04-54. The auditors recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in federal regulations, or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE.

Findings: ISAC is required to assign all defaulted loans that meet certain criteria as of April 15th of each year to the USDE. During the audit of the Federal Family Education Loan Program, the auditors noted there were approximately 8,014 defaulted loans that meet this criteria as of November 11, 2004 that should have been assigned to the USDE but were not. Management indicated it was their practice to only assign approximately 10,000 loans per year.

In discussing these conditions with ISAC officials, they state that while offering no dispute relative to the interpretation of the regulation in question, the Department of Education has consistently indicated their satisfaction with ISAC's process of subrogating loans. Further, understandable time, effort and personnel limitations have prevented the immediate subrogation of all loans which might be eligible for such treatment.

Response: ISAC will continue to monitor loans eligible for assignment, and, consistent with the Department of Education's direction and expressed guidance, assign the same over the course of the next year.

04-55. The auditors recommend that ISAC follow the written policies and procedures requiring the completeness and accuracy of imaging be verified before claims packets are destroyed and establish controls to ensure policies and procedures are followed. (Repeated-2003)

Findings: During the audit of the Federal Family Education Loan Program, the auditors noted ISAC's policies and procedures do not include written procedures that require verification of imaged documents for lender claims packet to determine whether they were completely and accurately imaged. ISAC officials stated they have a written rule requiring imaging personnel to verify the claim packets are imaged correctly.

During the review of the supporting documentation for 50 claims submitted for re-insurance, the auditors found the following:

- Twenty-two of the files included collection histories (supporting documentation) for which date information was cut off. However, by reviewing other information (e.g., page two of the claim form and other supporting documents) the "cut off" dates in question could be reconstructed.
- Four of the files included date stamps on the claims forms that were not clearly legible.

In discussing these conditions with ISAC officials, they state a combination of factors contributed to the condition including issues with the print range of a specific servicer's documents being incompatible with the scanning equipment and the ability of the imaging software to register the date stamp on a document. They also stated that additional quality assurance steps were implemented in April 2004.

Response: ISAC is addressing the issue of missing imaged information due to the incompatible print range of the documents submitted by collecting a second set of supporting documents before scanning. In addition, when the Imaging Department receives other reports that are incompatible with the imaging equipment, the files are imaged, but the source documents are retained in the Records Center. To address the issue of illegible date stamps, ISAC is currently reviewing imaging procedures and options to ensure legibility of the claim receipt date and will institute a quality assurance program to monitor the legibility of the date stamps.

04-56. The auditors recommend the Agency adopt formal guidelines and standards for timely reconciliation of the students' loan accounts assigned to the collection agencies and resolution of differences. (Repeated-1999)

Findings: ISAC is allowed to use collection tools and activities such as engaging a collection agency, once the loan is between 31 and 180 days past due and ISAC has performed its due diligence.

REVIEW: 4228

ISAC uses four collection agencies to assist collection efforts of past due loans under the Federal Family Education Loans program. Once ISAC has completed its due diligence activities, which includes (1) calling the borrower and (2) sending collection letters to the borrower, the past due loan is forwarded to one of the collection agencies. The collection agency then performs its collection efforts in an attempt to collect on the past due amount. During compliance test work, the auditors noted ISAC loan records do not agree to the monthly reports prepared by the collection agencies. The auditors noted discrepancies between the ISAC reports and the collection agencies in terms of the total number of borrowers and accounts assigned for collection. Below are the loan amounts per ISAC and the loan amounts per the collection agencies as of June 30, 2004.

Collection Agency	Loan amounts per ISAC	Loan amounts per Agency	Variance Percentage
Windham Prof.	\$72,677,136	\$63,961,009	12.0%
GRC	\$40,595,047	\$47,123,024	-16.0%
OSI	\$42,932,330	\$37,256,575	-13.0%
Diversified Collection Services	\$39,288,554	\$37,416,153	5.0%

A comprehensive reconciliation of the students' accounts assigned to collection agencies should be performed on a monthly basis. Also, this duty should be performed by a person independent from a duty of assigning accounts to the collection agencies. Any differences in reconciling should be investigated and resolved in a timely manner.

In discussing the variances with ISAC officials, they state that while improvements in the methods by which inventory records are compared and reconciled have occurred over time, it is believed that failures to implement the stated procedures and a lack of clarity surrounding internal responsibilities for such procedures contributed to the variances noted.

Response: ISAC has embarked upon a comprehensive effort to ensure the accuracy of inventory records as such information is maintained by both collection agencies and the agency. The agency is undertaking improvements in procedures, a clearer delineation of responsibilities, and specific expectations for performance as part of this effort to redress the problems noted. It is expected that with the reengineered reconciliation process to be implemented in April 2005, that this finding will be satisfactorily addressed during the 2005 calendar year.